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CURRENT SUPPORT BRIEF

HUNGARY NEGOTIATES DEBT REPAYMENTS

OFFICE OF RESEARCH AND REPORTS

CENTRAL INTELLIGENCE AGENCY

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HUNGARY NEGOTIATES DEBT REPAYMENTS

Recent Hungarian negotiations with Soviet representatives regarding debt repayments indicate that there is some concern in Budapest about incurring a new trade deficit while meeting current installments on long-term debt. 1/ In December 1960 a Hungarian delegation conferring in Moscow reportedly advised the Soviet Union that Hungary would be unable to meet its 1961 payments in full and asked for an extension of the repayment period. 2/ Further negotiations were carried on at the time of the visit to Hungary of Soviet Minister of Finance Garbuzov in early February. Reportedly Garbuzov suggested that Hungarian debts could be paid in the form of commodity exports to the Afro-Asian countries on Soviet account. 3/ Earlier it had been reported that the Soviet Union had proposed that Hungary provide a \$15 million* credit to Cuba (for telephone equipment and other goods) in lieu of partial repayment of Soviet loans to Hungary. 4/ Under such arrangements Bloc trade with the underdeveloped countries would be stimulated by the Hungarian offers of credits to finance its own exports. Hungary would liquidate its debt to the USSR through the Soviet-Hungarian clearing account to the extent of the value of the goods shipped, and in effect the Soviet credit to Hungary would be converted into a credit to an underdeveloped country. At this time, these are the only known Soviet proposals to mitigate the Hungarians' problem.

Since the 1956 revolt Hungary has received Soviet credits amounting to an estimated \$370 million (see Table). While a large portion of this sum was used for emergency shipments to bolster the economy during 1957, \$110 million were earmarked for industrial investment in the 1958-65 period. Additional Bloc credits of about \$87 million together with the Soviet credits enabled the Hungarians to finance an import surplus with the Bloc of nearly \$180 million in 1957. Deficits in trade were again incurred in 1959 and 1960 when sizeable investment credits which had been authorized in 1957 to assist the recovery and further development of the Hungarian economy were being drawn to cover machinery and equipment imports.

Hungary's current problem is one of finding a way to avoid a new trade debt in the face of the necessity to start major repayments on debt obligations while simultaneously increasing imports to support planned increases in industrial output. In addition, agricultural machinery and supplies must be purchased abroad to support the collectivization campaign which is to be pushed to its completion this year. 5/ Current economic plans require 25 percent more trade with the USSR in 1961 than in 1960. The capability of expanding exports sufficiently in 1961 to offset imports and, at the same time, to meet debt obligations appears limited, and it is possible that the Hungarians will not be able to avoid a new trade deficit with the USSR. 6/

*In this CSB, dollar amounts are current US dollars.

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The debt repayment schedule reaches its peak in 1961 and will continue at a high level until 1970. It is estimated that about \$35 million are due to the Soviet Union in 1961 and \$15 million to other Bloc countries (excluding interest). Hungarian Finance Minister Nyers, in discussing the 1961 budget stated that Hungary would be expected to meet installments amounting to 1.5 billion forints (about \$50 million*) on its foreign debts this year. 7/ Interest payments due to the Soviet Union reportedly were waived during 1957-61 on the principal commodity credit of \$187.5 million granted in March 1957, 8/ and it is possible that they have been cancelled entirely. As far as is known, Hungary has no outstanding long-term debt obligations to Western countries. According to an article appearing in a Hungarian publication in March 1959, debts to Western nations at that time consisted exclusively of the usual credits that occur in foreign trade transactions. 9/

*While the official rate of exchange is 11.74 foreign exchange forints to the dollar, a rough approximation of the value of the internal forint (in which the budget values would be expressed) is obtained by using the ratio of 30 forints to the dollar.

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 Bloc Credits to Hungary
 1956-60 a/

Country	Date	Amount (Million US \$)	To Be Drawn	Repayable	Details
USSR	Oct 56	25.0	1957	1961-70	Commodity credit of \$15 million; convertible currency \$10 million. (Originally to be repaid by 1964)
	1956	6.3	1957	1961-70	Commodity credit.
	Mar 57	187.5	1957	1961-70	Commodity credit \$137.5 million; convertible currency \$50 million. Repayable in goods. Interest to be waived from 1957 to 1961.
	Mar 57	37.5	--	--	Renegotiation of earlier loans; payments deferred "for a long time."
	Dec 57	75.0	1958-63	1959-68	Investment credit for industrial equipment.
	Nov 58	27.5	1961-63	na	For nitrogen fertilizer factory
	Nov 58	7.5	1961-65	na	For development of oil industry.
Total USSR		366.3 b/			
Bulgaria	Jan 57	1.75	1957	1959-63	Commodity credit, repayable in goods.
Communist China	May 57	25.0	1957	1960-69	Foreign currency loan, repayable in goods. Major portion of this loan was used to convert existing indebtedness; remainder available in sterling.
Czechoslo- vakia	Mar 57	25.0	1957	1960-67	Commodity credit. (\$18.75 million new loan and \$6.25 million loan extension for previous deliveries)
East Ger- many	Jan 57	15.0	1957	1961-65	For purchase of raw materials, machinery and consumer goods.
Poland	Feb 57	10.0	1957	1959-62	Commodity loan.
Rumania	Dec 56	10.0	1956-57	1959-61	Commodity credit.
Total Other Bloc		86.75			
Total Bloc		453.05			

a/ 10/

b/ In addition, outstanding credits include \$3.75 million for an unspecified project, scheduled for repayment 1961-70.

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Analyst:

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